

Transmission Workgroup (Issues)

Minutes

Wednesday 24 August 2011

ENA, 52 Horseferry Road, London SW1P 2AF

Attendees

| | | |
|--------------------------|-------|-------------------|
| Bob Fletcher (Chair) | (BF) | Joint Office |
| Lorna Dupont (Secretary) | (LD) | Joint Office |
| Alison Meldrum | (AM) | Tata Steel |
| Chris Wright | (CW) | Centrica |
| Dan Treverton | (DT) | National Grid NTS |
| Jill Brown | (JB) | RWE npower |
| Julie Cox | (JCx) | AEP |
| Malcolm Arthur | (MA) | National Grid NTS |
| Mark Baker | (MB) | Centrica Storage |
| Richard Fairholme* | (RF) | E.ON UK |

**teleconference*

1. Introduction

Copies of all papers are available at www.gasgovernance.co.uk/tx/240811.

BF welcomed attendees to the meeting.

2. Issues

2.1 Review of Systems Alerts

MA gave a presentation outlining the background to the issue, and explaining the obligations under the UNC, and the current methodology and actions applied in the issue of a Gas Balancing Alert (GBA). The two triggers were described together with an overview of the information published following calculation of the trigger levels. Attention was then drawn to the issues identified with the current methodology. MA also observed that Shipper nominations were not as accurate as could be expected either before day or during the day.

Responding to questions, MA believed there had been about 4 GBAs over the last few years and it was not clear if they were an appropriate for the new exit arrangements. It was very unlikely that a modification could be implemented for this winter but other improvements may be possible in the interim (assuming no system changes were required); a modification was certainly possible to take effect for Winter 2012/13.

There had been general feedback that the GBA signal was not as strong or effective as the industry would like. CW asked if there were any specific instances; DT responded that it was partly due to National Grid NTS' view of available supplies and this affected the reaction of the market, potentially triggering an 'incorrect' response for Day Ahead when a different one might be looked for.

It was questioned what sort of response should be looked for when a GBA was issued; what should be the expectations on National Grid and other parties; what effect on the market should National Grid be looking for. Consideration should be given as to what the market should be expected to do when it receives the signal. JCx observed that the market strives to balance. MA commented that

reactions to a GBA had resulted in oversupply and this was not necessarily the right response; National Grid would not expect to prescribe the method for response. Understanding was required as to how the market perceived the signal and interpreted the need for response, eg would National Grid expect to see an increase in trades? Confidence was required that an EOD balance would be achieved – though in certain circumstances they needed to be mindful of system issues during the day.

JCx referred to the Security of Supply Regulations, and pointed out that 2 levels of alert (early warning level and alert level) were to be applied pre-emergency and that a preventative action plan was required to be in place by June 2012. Any developments would need to be consistent with the EU. MA noted this for further consideration.

AM queried whether a signal should be zonal rather than national, adding that certain sites would be more sensitive to this approach. DT confirmed that National Grid was considering a zonal alert approach internally.

Focusing on the existing arrangements DT then recapped on the 2 triggers for Day Ahead and Within Day, and the current associated information provision.

Day Ahead

DT explained how the analysis was performed to give a predicted starting point for winter, was added to and monitored as winter progressed, and affected the view/status of deliverability of various facilities, and questioned was it still appropriate to base assumptions on this information. JCx believed it to be relatively stable and predictable, whereas a movement to something more dynamic maybe more problematic. DT commented that, looking at some instances, some perhaps more pertinent information could be taken into account that would change a view and the perception that a signal is required; even the best approximation is not necessarily a true reflection of what may happen.

The actual naming of the term GBA created an issue for some customers and MB raised this concern, explaining that because it was such a rare occurrence when a GBA was issued, their customers did not know what to do. Centrica Storage received many calls seeking advice; Ops desks did not know what was expected and this could contribute to delays in effecting the response expected by National Grid – it might also be a factor into over delivery. It also caused a degree of panic in some customers who wondered what effects it might have on their storage contracts. There was a view that the word 'Alert' needed changing as it indicated a high degree of urgency. AM believed it was appropriate when it was first introduced but that it has since lost its status as a last resort mechanism; nothing in an end user's contract forces them to react to this GBA. DT agreed that such response delays could theoretically force National Grid into taking unnecessary actions, with a resultant cost to the community. Signals did not therefore appear to be working well for either side. JCx observed that signals needed to be robust for a number of scenarios.

Speaking from a Storage Operator perspective, MB stated that nominations to National Grid would be based purely on customer nominations, at a point that was very early in the day for customers, who may then intend to withdraw nominations later in the day; this also may contribute to the lag in response that National Grid NTS perceives. Issuing at 13:00 is fine, but National Grid may not see the volumes expected until 17:00 or 18:00 at night, ie 4 to 5 hours after the alert has been issued. Referring to Slide 10, MA commented that extrapolating out, the information does not appear to be that accurate and an improvement to within day nominations needed consideration. He questioned at what point should National Grid confidently be able to place a reliance on the provided information. MB indicated that lead times were 2-3 hours – customers were not nominating day ahead at the point at which National Grid would most probably

want the information or the response. JCx believed Shippers' exit nominations were typically zero, and asked were Gemini nominations and Storage the same? DT indicated there were significant differences noted in the analysis. AM was concerned that National Grid and the market could therefore be misled by inaccurate information.

MA acknowledged the issue concerning the name (it could be renamed), and questioned whether it should be phased, ie 1m, 50m, etc ; or be done away with completely; or downgraded eg to Day Ahead Notification, and making it very clearly separate from Within Day, indicating that a slightly different reaction was required from the market. MB suggested publishing volume or range to assist market in forming a view on the best action to take. JCx queried if it could become a routine screen that traders access every day. CW pointed out that the information is there all the time and he would expect that many parties would regularly monitor the information. MB believed that smaller parties may not be so aware of this or know what to do because of the infrequency of any occurrence. JB wondered if it could be linked to the emergency procedures, and JCx believed that the EU developments would lead in this direction – to react before a situation became an emergency. AM commented that there was not sufficient signal for a reaction from an end user – they will act as a last resort or due to price changes.

MA suggested the development of a mechanism for a staged GBA, but including some discretion, and flexibility around issue and recall timescales. AM stated that it needed to be a 'quality' alert to elicit an end user response. MA observed that if the System Operator is perceiving that the system is going to fall over in 12 hours it should not matter what gas Day it is or is not, and how this should be communicated. JCx thought that if a Day Ahead process was retained it required flexibility to be able to communicate at any time rather than be constrained by set issue times. MB questioned why it should be tied to 13:00; later in the day, eg 18:00, may give more accurate information and allow views to be changed up to 03:00 next morning. With constant monitoring it is clear the picture changes according to Shippers' actions and reactions, and timely downgrading or reversal of signal should be possible. If information on potential expected deficits were published more frequently then Shippers would become reasonably confident about what to expect and how to react.

AM commented that the system had been short at times during recent weeks. MA believed the view was that the system could possibly be short due to a number of factors, but whether it actually was short in reality was dependent upon the accuracy of the information provided to National Grid NTS. As a System Operator perceiving the system to be approaching potential deficit in the morning what do you do? Wait and hope? Or take action? DT observed that the commercial nominations in Gemini and the Terminal DFNs were often disparate and the degree of reliance to be placed upon them was not good; the view from the Control Room was often at odds with the view from the commercial team's perspective.

Supply volatility is an issue and the information presented on Slide 10 was discussed. DT believed it could be broken down further to provide more detail.

Action TRI001: Confirm whether linepack information is based on DFNs or commercial information.

MB stated that DFNs are based on physical delivery. Flow rate figures are published and constantly monitored and by 18:00 are as accurate as they can possibly be, but whether they match the commercial nominations that Shippers have input into Gemini is another matter. In his view the DFN was likely to be more accurate. AM stated it was quite clear that there was a disconnection between the commercial view and the DFNs and this distorted perceptions and

subsequent reactions. JCx questioned if the discrepancies between aggregate DFNs and aggregate commercial nominations were published throughout the day, and if not, should they be? Would this give the market better information on which to base decisions about the appropriate action to take. CW suggested that 'naming and shaming' poor behaviour might be more effective than any financial penalty.

JCx briefly referred to INS but was unable to remember many details and MA noted this for further consideration. Slide 11 was reviewed. The Day Ahead Alert was based on assumptions rather than accurate information, and pushed parties into a 'wrong' response, leaving them to trade out their positions at the end of the day. Reactions may result in oversupply because parties were not clear what was required of them.

DT asked what was the right message to the market, and reiterated the questions on Slide 12 for discussion, and the following points were made/agreed/noted for further consideration:

- *Was there still value in issuing a Day Ahead alert using the current GBA Trigger Level methodology?* JCx believed not.
- *Should National Grid have discretion day ahead? and in relation to what?* It was believed, yes; though having discretion may also have some drawbacks - it was better to have more accurate information. Additional information would have to be published in support of any decision taken. This may also prevent parties from over-response or failing to understand that action was required.
- *Should the methodology for trigger levels be changed?* It was believed it needed revising – it was too mechanistic, too alarmist, and needed more flexibility.
- *Should LNG be treated like Storage, ie supply based on deliverability?* It was believed, yes. DT indicated that more analysis might be required to understand if this would trigger more alerts.

Action TRI002: Perform further analysis to ascertain if there was likely to be increased frequency of triggers if LNG was to be treated like Storage, and any other effects, and report findings to Workgroup.

- *What should it be called?* It was agreed it should be called a different name at the Day Ahead stage.
- It was agreed that the ability to withdraw a GBA should be available to National Grid.

It was questioned what information should be shown (on an individual or aggregate basis). JCx also suggested that it would be useful to define what LNG facilities contained in terms of days of deliverability, and volumes.

- *Is a market response required?* The market decides what it should be, and it depended on the degree of perception. MA asked if all players were likely to respond; MB believed that most would look at it and understand that this was advance warning that the position was getting tight; some would respond. CW would expect some narrative to accompany the figures highlighting why the alert had been issued – a couple of sentences would be enough to clarify. It was suggested that a breakdown of the figures might be useful to assist understanding where the shortfall was occurring. Bar charts might be helpful. Concerns were then raised regarding use of certain information being open to the challenge of insider trading. MA noted the suggestions and concerns

and would ascertain what may/may not be published and to what level of detail (disaggregating numbers?).

Action TRI003: Circumstances relating to a perceived GBA event - Clarify what aspects of, and to what degree of detail, supporting information may be published to justify the issue of a GBA.

Within Day GBA

DT recapped on the current position, identifying similar issues to those under Day Ahead, which were then discussed.

It was believed that it should be possible to signal that a reasonable operational level had been achieved at any point. It was questioned whether more information should be published to make it clear when/what deficit was expected to occur. How should an interim deficit be signalled, for which an immediate response was required, as distinct from an EOD issue?

When considering the issue where an EOD balance could be achieved but the system still fail part way through the day, MB observed that there might be an issue from a Storage Operator's perspective, in that it would put a strain on plant to ramp up and ramp down in a short period of time. Accurate booking was required from an earlier position to allow for a steady storage release. A slight movement up and then, a little later, down might be observed. He was concerned that storage might not be able to give National Grid NTS the immediate response that it was looking for.

Response could be demand led – either an increase in supply or a reduction in demand.

JCx believed that there were within day physical products put in place for the short term physical response which, she recalled, were introduced as part of Exit Reform. It was all about managing flexibility requirements; a commercial product – what was needed to help manage the system in tough times.

MA questioned, does the System Operator deal with the perceived problem, and pass on the cost of actions taken to address the issue? Jcx pointed out that allowing National Grid to take actions was also a market response, but believed that the market should be allowed to deal with it first, unless it was so severe as to be approaching a 'broken' situation. MA asked what information should be provided to enable prompt action to be taken by the market rather than at EOD? Should the market be told the time it was required? Would this elicit a speedier response?

MB asked if a different mechanism was required to address an alert within a set period of time, or should there be an alert capable of use for any period?

MB questioned the physical capabilities of the system - could it absorb the increase in flows and pressures of a market lead response.

MA then asked for views on whether the current methodology worked. It was acknowledged that judging a deficit position and how it translates onto the system was an imprecise science.

Slides illustrating a 30 metre day deficit (08 August 2011) and the underlying contributing Shipper information were then displayed and discussed. The within day imbalance demonstrated by Shipper provided information appeared very significant, and MA pointed out that National Grid NTS had to make decisions based on this information by the Shippers. It could be construed that National Grid was being prevented from managing the system efficiently due to lack of accuracy in the information with which it was provided. MB believed this was a separate issue – the accuracy of the nomination information provided - that

needed addressing and this should be raised with the individual Shippers concerned. CW recalled a similar situation where this was highlighted at the Transmission Workgroup and this resulted in an immediate improvement in behaviour by parties concerned.

MB expressed concern that this may be a way of manipulating or driving the market.

MA confirmed that analysis could be performed for Shipper provided information on other high deficit days and also in respect of DFN provided information.

TRI004: Analysis to be performed for Shipper provided information on other high deficit days and also in respect of DFN provided information.

Referring to the general issues within scope for review, MA summarised that

- *Renaming and splitting of the reference 'GBA' to separately defined within day and day ahead signals* – This was agreed and the changes to the methodology would be considered.
- *Aligning UNC with the calculation methodology undertaken by National Grid NTS during the GBA* – The methodology that is adhered to needs to be hard coded into the UNC.
- *Introducing the ability for National Grid NTS to recall a GBA notice* – This was agreed.
- *National Grid NTS to consider what information would help the market to initiate timely response* – ie the level of deficit and the time of issue
- *Industry information – consider what information would aid system operation in times of high system stress* – How to improve the accuracy of information and how to recognise that the market is responding

MA then asked if there were any additional industry concerns.

AM referred to the Significant Code Review, and a last resort product that triggers demand side contracts by inclusion of an instruction to act. JCx commented that demand side can often respond quite quickly and may help to alleviate a bad situation and rescue the system before it reaches emergency status.

JCx highlighted the requirement to be consistent with EU developments.

2.2 Review of Safety Monitors

MA gave a brief update. Changes to the classification of some DN load to Firm means that this must be included in the Firm Monitor and results in changes to the storage requirement. Firm monitor requirements were likely to increase again for 2012/13 as all NTS connected demand will be Firm and would have to be included in the calculation. MA sought views on what the industry used the Firm Monitor information for, and whether there was any value in the continuing production of such information. MA added that the DSWG would also be approached for its views.

If there were no benefit to the industry in continuing to produce this, then removal of the obligation could be proposed; a revised methodology could also be developed if considered appropriate. A formal modification would be required to achieve removal of the requirement to publish the information.

Safety Monitors will continue to be published.

3. Any Other Business

None raised.

4. Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

The next Transmission Workgroup (Issues) meeting will be arranged, most likely towards the end of September when further progress has been made; details will be notified when confirmed.

Action Log – UNC Transmission Issues Group: 24 August 2011

| Action Ref | Meeting Date(s) | Minute Ref | Action | Owner | Status Update |
|------------|-----------------|------------|---|------------------------|---------------|
| TRI 001 | 24/08/11 | 2.1 | Confirm whether linepack information is based on DFNs or commercial information. | National Grid NTS (DT) | Pending |
| TRI 002 | 24/08/11 | 2.1 | Perform further analysis to ascertain if there was likely to be increased frequency of triggers if LNG was to be treated like Storage, and any other effects, and report findings to Workgroup. | National Grid NTS (DT) | Pending |
| TRI 003 | 24/08/11 | 2.1 | Circumstances relating to a perceived GBA event - Clarify what aspects of, and to what degree of detail, supporting information may be published to justify the issue of a GBA. | National Grid NTS (MA) | Pending |
| TRI 004 | 24/08/11 | 2.1 | Analysis to be performed for Shipper provided information on other high deficit days and also in respect of DFN provided information. | National Grid NTS (DT) | Pending |